The U.S. Lettuce and Fresh-Cut Vegetable Industries: Marketing Channels, Sales Arrangements, Fees, and Services

Lewrene K. Glaser and Gary D. Thompson[1]

Abstract: Fifteen lettuce and bagged salad shippers were interviewed as part of a larger study on changes in produce marketing. These shippers and processors offer a diverse product mix and typically market their products to a wide array of buyers. The interviewed firms provided more fees and services to retail buyers in 1999 than 1994. Most of the bagged salad shippers paid slotting fees, while none of the lettuce shippers were currently doing so. Bagged salad firms tended to offer services to their customers, while lettuce firms generally complied with the service requests made by retailers.

Keywords: lettuce, fresh-cut, bagged salads, fees, services, marketing.

In the past year, produce shippers have expressed concern about the recent wave of supermarket mergers and the adverse effects of new industry marketing and trade practices, such as slotting fees and electronic data interchange (EDI). Yet, there is a lack of information on the incidence and magnitude of these new practices and how they affect shippers, retailers, and consumers. As part of a project examining these issues, ERS staff worked with university researchers to identify and characterize the types of marketing and trade practices used in the produce industry, including fees and services provided by shippers. *U.S. Fresh Fruit and Vegetable Marketing: Emerging Trade Practices, Trends, and Issues* (Calvin *et al*.) presents the results for all seven studied products (California grapes, oranges, and tomatoes; California and Arizona lettuce and bagged salads; and Florida tomatoes and grapefruit).

This article explores in further detail the marketing experiences of 15 California and Arizona shippers of lettuce, mixed vegetables, and fresh-cut vegetable products. Information is presented on marketing channels, sales arrangements, fees, and services. More information can be found in the forthcoming report by Glaser, Thompson, and Handy.

Nearly 100 percent of the lettuce consumed in the United States is produced domestically. The vast majority of domestic production takes place in just two States: California and Arizona. (See Glaser, Lucier, and Thompson for more detail on lettuce production and consumption trends.) A relatively small number of firms coordinate the growing, processing, and transport of lettuce. Nearly all the major shippers have headquarters and year-round sales offices in the Salinas, California, area. Because of this geographic concentration, California-based shippers constitute virtually the entire population of lettuce shippers supplying the domestic U.S. market.

Most shippers of iceberg (also known as crisphead or head), leaf, and romaine lettuce are diversified mixed-vegetable shippers with product lines of as many as 75 commodities, including broccoli, cauliflower, celery, and green onions. Most of these Salinas-based shippers carry such wide product lines in order to offer their customers one-stop shopping. Some of these same shippers also specialize in particular commodities that have thinner markets. Such specialty items could include organic vegetables, artichokes, cactus pears, and rappini.

Many lettuce shippers engage in some degree of processing. Industry participants categorize their products into roughly three groups—commodity, value-added, and fresh-cut or fresh-processed—mainly based on the degree of processing required. Commodities are typically the least differentiated products; the amount of processing required is minimal and often may be performed in field-pack operations. Value-added products encompass a wide variety of fresh products, such as hearts of romaine, cello-packed spinach, and cauliflower florets. These value-added products typically require less processing than fresh-cut products, and operations may be performed in modified packing sheds. Bagged salads require substantial capital investments in plants and machin-

[1] Agricultural economist, Economic Research Service, U.S. Department of Agriculture and Professor, Department of Agricultural and Resource Economics, University of Arizona, respectively.

ery and sophisticated packaging films to manage product transpiration and respiration rates and extend shelf life.

Firms Interviewed

Because there are no public data on transactions between produce shippers and retailers, ERS and university researchers conducted a small number of personal interviews with fresh fruit and vegetable shippers to better understand the evolving nature of marketing and trade practices. Given the limited number of interviews—15 California and Arizona lettuce and bagged salad shippers—the findings should be interpreted with caution. In particular, the quantitative results should be viewed as indicative of industry practices rather than a precise accounting. Nevertheless, the information is a first step in understanding recent changes in the produce industry. The interviews concentrated on two main aspects of the business relationship between shippers and retailers:

- the types and characteristics of sales and marketing arrangements, and;

- the types of fees and services that shippers were being asked to provide, or were offering, to retailers and mass merchandisers.

Information was collected for 1994 and 1999, providing two time periods for comparison.

Eight of the 15 interviewed shippers sold commodity lettuce, along with a wide range of mixed fresh vegetables. The firms offered an average of 24 commodities to their clients, with iceberg as the dominant type of lettuce sold, followed by romaine and green and red leaf lettuce. Five of the eight firms were involved only in commodity sales, while three shippers offered a few fresh-cut and value-added items, such as broccoli and cauliflower florets. Seven of the 15 interviewed shippers sold either bagged salads exclusively or offered an extensive line of bagged salads and other value-added products in addition to their commodity sales.

The interviewed shippers had sales that ranged from over $200 million to $100 million or less in 1999 (table B-1). Although there were exceptions, the bagged salad firms tended to have the highest annual sales, while the firms specializing only in commodities tended to have the lowest. Firms were asked specifically about their lettuce or bagged salad buyers, marketing practices, and sales. However, because of their broad product lines, many firms were unable to be that specific. The results presented here apply predominantly to lettuce and bagged salads, but also may encompass other vegetables and value-added products.

Marketing Channels

Shippers typically market their products to a wide array of customers: retail supermarkets, foodservice firms, mass merchandise stores (supercenters—large general merchandise discount stores with grocery departments—and membership wholesale clubs), wholesale markets, brokers, and others. The nature of demand for fresh produce varies considerably across these markets. Foodservice can be the most stable market, in which fixed menus and prices can translate into consistent demand for products. Demand for products at retail and wholesale markets, on the other hand, can vary substantially from one week to the next. Some fresh products like lettuce are expected to be available year-round at consistent quality, while other products like watermelon are seasonal. Prices and volumes may be more volatile for seasonal products as demand varies and supplies fluctuate.

Most shippers sell to the full range of market channels. While some concentrate on particular types of customers, others consciously diversify across channels. Ten of the interviewed firms provided information on the marketing channels they used for selling lettuce in 1999. Grocery retailers accounted for 59 percent of lettuce sales at the median, but sales ranged from 34 percent to 70 percent. At median values, foodservice was the next most important marketing channel (22 percent), followed by produce wholesalers (8 percent), mass merchandisers (4 percent), brokers (4 percent), and exporters (3 percent).

Seven of the 10 firms also reported on their marketing channels for lettuce in 1994. The median percentage of sales going to retail buyers declined slightly from 1994 to 1999, while the share to foodservice increased (fig. B-1). Several small- and medium-sized lettuce shippers said they made a strategic decision to actively pursue more foodservice business, either in response to retail consolidation or as a diversification strategy. Over the same period, the median share of sales to wholesalers and brokers (market intermediaries) declined.

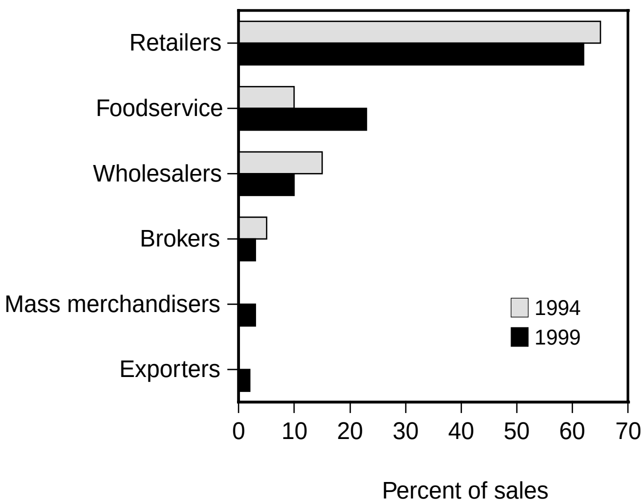
For bagged salads and value-added products, the share of products sold through marketing channels differs from lettuce. The four firms reporting value-added sales by buyer type in 1999 sold almost exclusively to retailers and foodservice firms. Although the median percentage of sales to grocery retailers is the same for lettuce and value-added

Table B-1--Size distribution of interviewed firms

1999 sales	Number of firms	Types of products sold
Over $200 million	4	Mostly fresh-cut, some value-added and commodity
Over $100 million to $200 million	6	Fresh-cut, value-added, and commodity
$100 million or less	5	Mostly commodity, some value-added and fresh-cut

Source: USDA, ERS, Produce Marketing Study interviews, 1999-2000.

Figure B-1
Median share of lettuce sales by market channel



Seven firms reporting.

Source: ERS, USDA, Produce Marketing Study Interviews, 1999-2000.

products (59 percent), the range is wider for value-added products (31 percent to 85 percent). The share of value-added sales going to foodservice ranged from 15 percent to 53 percent, with a median of 33 percent.

Sales and Marketing Arrangements

The market for commodities is traditionally price-competitive, emphasizing daily sales and short-term pricing arrangements. Volumes sold and prices in wholesale and retail markets typically experience significant intra- and interyear price variation, with most sales finalized on a daily or weekly basis. Quality or brand reputation can provide some negotiating strength in the commodity market, allowing some firms to receive a premium over market price. However, the base price still fluctuates with the market, which is largely driven by weather conditions in production areas. In an industry with many suppliers and relatively homogeneous products, most shippers are simply price-takers.

Among the interviewed lettuce firms, daily sales were the most frequent mechanism used to sell commodities to produce wholesalers and grocery retailers (table B-2). Advance pricing[2] and daily sales were commonly used for foodservice buyers. All of the sales going to mass merchandisers were based on annual contracts. Mass merchandisers generally have different procurement methods than other retail buyers, relying on a limited number of preferred suppliers for automatic inventory replenishment. Based on the interview results, lettuce firms negotiated these marketing arrangements on an annual basis.

[2] Typically, advance pricing agreements specify the price for some period in advance for an estimated volume but without a formal purchase commitment.

The bagged salad market much more closely resembles markets for traditional packaged products. Daily sales are extremely rare. Most firms negotiate sales arrangements to cover at least a year. Ninety-three percent of the sales to grocery retailers and 100 percent of the sales to mass merchandisers were via annual and multiyear contracts (table B-2). Shippers tend to specify a set list price and offer it to all retailers for the length of the agreement. This price can be negotiated across accounts, but once agreed upon, tends not to vary over the course of a contract. Negotiations to secure a long-term sales commitment with a retailer generally focus on various fees and services provided by the shipper.

Requests for fees and services from retailers to produce shippers have reportedly been on the rise in recent years. The study asked interviewed shippers to focus on their experiences with retail and mass merchandiser buyers when discussing a list of possible fees and services. The intent was to sort out which fees and services have become standard industry practices, which are new or increasing, whether they are retailer or supplier induced, whether the costs of providing these fees and services are significant, whether failure to provide requested fees and services frequently leads to loss of accounts, and whether shippers benefit or lose.

Fees for Bagged Salads

Slotting fees, which were first used for manufactured grocery products in 1984 (Sullivan), and pay-to-stay fees, have not traditionally been used in fresh produce departments. (A slotting fee is a lump-sum payment, from a supplier to a retailer, for introducing a new product to the supermarket shelf, while a pay-to-stay fee is a fixed payment made to keep a product on the shelf.) However, branded fresh-cut and value-added produce is produced and marketed more like other manufactured products, requiring dedicated year-round shelf space.

Most of the bagged salad shippers paid slotting fees, either in response to retailer requests or to remain in the bidding with other competitors (table B-3). Two firms did not: one made an alternative arrangement, while the other, for whom bagged salads were a minor part of its business, lost the account. Interviewed bagged salad shippers would not reveal the exact amount of slotting fees paid by their firm, but several would talk about the general use of slotting fees in the sector. For example, shippers reported that slotting fees generally ranged from $10,000 to $20,000 for small retail accounts to $500,000 for a division of a multiregional chain, and up to $2 million, in some cases, to acquire the entire business of a large multiregional chain.

Some firms characterized the fees as upfront payments, but contracts are typically renegotiated every year or, in a few cases, every 2 or 3 years. At renegotiation, competing shippers submit their proposals, which may include higher fees. Fees may include category management (a program where suppliers and retailers work together to improve category

Table B-2--Average percent of sales to each marketing channel by sales mechanism type in 1999 1/

Shipper type and marketing channel	Type of sales mechanism: Daily sales	Advance pricing	Annual contracts	Multi-year contracts
	Percent 2/			
Lettuce/commodity shippers 3/				
Grocery retailers	56	34	10	0
Mass merchandisers	0	0	100	0
Produce wholesalers and distributors	94	6	0	0
Foodservice buyers	36	48	16	0
Brokers	n.a.	n.a.	n.a.	n.a.
Bagged salad/value-added shippers 4/				
Grocery retailers	7	0	64	29
Mass merchandisers	0	0	100	0
Foodservice buyers	0	33	62	5

n.a. = Not available.

1/ Results are based on a limited number of observations and must be interpreted with caution.

2/ Average of percentages reported by each firm; figures are not weighted by total firm sales.

3/ The number of firms reporting about lettuce sales ranges from four to eight, depending on the number of marketing channels used by each firm.

4/ The number reporting on value-added sales ranges from two to four, depending on the number of marketing channels used by each firm. Clearly, contracts are an important sales mechanism for bagged salads in all marketing channels. However, due to the small number of firms responding, the percentages for daily sales and advanced pricing may not represent general industry practices.

Source: USDA, ERS, Produce Marketing Study interviews, 1999-2000.

Table B-3--Types of fees reported by interviewed lettuce and bagged salad shippers in 1999 1/

Fee type	Share of firms providing fee 2/	Share of firms with a fee request 3/	Share of requests where fee was new 4/	Share of requests complied with 5/	Share lost when request not complied with 6/
	Percent				
Lettuce/commodity shippers 7/					
Slotting fees	0	43	100	0	100
Pay-to-stay fees	0	0	0	0	0
Volume discounts	57	71	0	80	0
Advertising allowances	43	43	0	100	0
Other rebates	71	71	20	100	0
Free-product discounts	43	43	0	100	0
Buy-back unsold products or failure fees	43	43	0	100	0
E-commerce fees	14	29	100	50	0
Retail capital improvements	0	29	0	0	0
Bagged salad/value-added shippers 8/					
Slotting fees	67	100	100	67	50
Pay-to-stay fees	67	100	100	67	50
Volume discounts	67	67	0	100	0
Advertising allowances	83	83	0	100	0
Other rebates	83	83	0	100	0
Free-product discounts	67	67	0	100	0
Buy-back unsold products or failure fees	0	33	0	0	0
E-commerce fees	0	0	0	0	0
Retail capital improvements	50	50	0	100	0

1/ Fees to grocery retail and mass merchandise customers only. Results are based on a limited number of observations and must be interpreted with caution.

2/ Shippers were asked if they provided a type of fee to any of their retail accounts. Thus, these results indicate the share of firms paying fees to at least one retail account.

3/ Includes fees requested, whether complied with or not, and fees offered by shippers to at least one account.

4/ The type of fee was new since 1994.

5/ Includes retailer-requested and self- and competitor-initiated fees for at least one account.

6/ Firms reporting at least one account lost when they did not comply with at least one fee request.

7/ Seven firms reporting.

8/ Six firms reporting.

Source: USDA, ERS, Produce Marketing Study interviews, 1999-2000.

profitability), volume discounts, advertising allowances, rebates, and capital purchases. Some firms argue that the categories covered by fees have blurred, and many retailers have control over how fees are used. Most firms in the bagged salad industry are aware of their costs of production and typically design proposals to guarantee a certain profit margin regardless of the particulars.

One key point about renegotiation is that supermarket chains do not demonstrate much loyalty. Put differently, there appears to be considerable competition among branded salad firms at renegotiation. To the extent retail consolidation has reduced the number of chains and buyers, losing a single contract can represent substantial lost revenue. As some chains are now offering private label salads, there is presumably private label versus branded competition for shelf space and promotion.

An indication of retail bargaining power is the lack of commitment on space or volume sold once fees are paid. Bagged salad firms were not clear about what rights they obtain from paying fees. No firm mentioned slotting fees as a guarantee of a specified number of linear feet in refrigerated displays. A few mentioned that they use third-party or the chain's scanner data to track sales after the contract had been negotiated and signed. But it was not clear what happens when retailer's sales volume does not meet expectations. In a few cases, when one retail chain was acquired by another, previous slotting fee agreements have not been honored.

Not all retailers use the same business management practices. Some firms do not request or accept fees, but instead focus on the efficiencies of handling relatively high-volume products and negotiating long-term agreements with suppliers.

Fees for Lettuce and Mixed Vegetables

The use of slotting and pay-to-stay fees for bagged salads and other fresh-cut products has led to concerns by commodity shippers that they will soon become standard practice for commodities as well. However, only three lettuce shippers reported that they had been asked to pay slotting fees by one or more retail buyers. One of the three initially complied with the request, but it is unclear whether the slotting fee was for commodities or value-added products. The firm later evaluated the cost to the company and decided it was not worth it. All three firms that received a request to pay slotting fees decided not to pay and lost the account.

Slotting fees paid by shippers for their branded bagged salads and other value-added products may have a negative indirect effect on commodity shippers. A few bagged salad firms also carry a broad product line of commodity products. Some shippers claimed that when such a firm negotiates a contract with retailers for its branded bagged salads and/or other value-added products, they may also negotiate terms favoring their commodity products. One lettuce shipper reported losing a retail account to another shipper that had negotiated a joint value-added/commodity contract. Other lettuce firms were concerned about being able to compete.

More traditional fees, such as per unit rebates and volume discounts, were paid by a majority of interviewed lettuce shippers (table B-3). Some retailers often, though not universally, charge a rebate (a per-unit fee) for all commodity products they purchase, effectively lowering the f.o.b. price by a set amount. Volume discounts offered by shippers, or negotiated between shippers and retailers, give retailers an incentive to maintain a long-term relationship with a particular shipper—as the retailer buys more cartons over time, the volume discount increases, thus lowering the per unit cost. Interviewed shippers reported that per unit fees typically range from 10 cents to 25 cents per carton. Several firms also reported paying advertising allowances and providing free products (typically for new store openings).

Shipper reactions to fees vary. Some simply pay and attempt to compete on price and nonprice services. Others who pay are careful to ensure that all payments are accounted for on invoices so that growers and any other parties with financial interest in their operations will have complete records of payments. Some rely as much as possible on their reputations for quality and service to give them a competitive edge.

Fees in Foodservice

As mentioned earlier, produce shippers sell to a variety of market channels of which grocery retailers and mass merchandisers are just a part. Per carton fees on lettuce and other vegetables sold to foodservice firms are commonplace. The ability to negotiate these fees with foodservice firms may be even more constrained than with supermarket chains. Many shippers stated that one foodservice company charges a nonnegotiable 48 cents per carton. Another foodservice firm billed its suppliers a flat fee of $200 per invoice to induce shippers to become EDI (electronic data interchange) compliant with them, allowing electronic sharing of orders and invoices. Even with commodity items, foodservice firms typically contract with shippers, and fees are part of the terms of the contract.

For most shippers, the volume sold to foodservice buyers is proportionally larger than the value of foodservice sales, because foodservice pays less per unit than retail operations. Consolidation of foodservice firms may not be as contentious for shippers because foodservice demand is relatively stable year-round even at high or low prices. In economic terms, foodservice demand appears to be fairly inelastic[3] because of relatively fixed menus at fixed prices. Finally, for most firms, the percentage of sales to foodser-

[3] A good is inelastic if a 1-percent change in price results in less than a 1-percent change in quantity demanded.

vice buyers has grown, but is still less than the percentage of sales to retail buyers.

Services

Lettuce and bagged salad shippers complied with most of the requested types of services (table B-4). This high compliance rate has two components. First, some of the bagged salad firms offered services, such as EDI and category management, to their customers. Second, lettuce firms generally complied with the services requested by retailers. Product quality and timely services were often mentioned as a way to distinguish a firm from its competition and to cement ongoing relationships.

Most of the interviewed lettuce and bagged salad firms had requests from retailers for ***third-party food safety certification***. A few shippers already had been using third-party certification for a decade or more. Others had developed in-house food safety programs. Some of those with their own programs view third-party certification as redundant and unnecessary, particularly when the standards and suggested certifiers differed among retailers. Only one of the firms had not complied with requests for third-party certification. Opinions on the impact of third-party certification differed among shippers, six firms considered the impact as beneficial to their firms and three considered it harmful.

Ten lettuce and bagged salad firms used ***EDI***. A few of the bagged salad shippers indicated that they actively offered EDI to their customers, while the more commodity-oriented shippers waited for customers to ask for the service. All of the firms asked to use EDI complied with the request. A couple of lettuce firms were not yet using EDI, but were planning to do so by the end of 2000, because they wanted to be ready when customers asked. Firms generally viewed EDI's impact as either neutral or beneficial.

A couple of the bagged salad firms interviewed indicated a conscious shift from their own branded products to ***private label*** processing and sales—for both retail and foodservice. In metropolitan areas where incumbent bagged salad firms already enjoy relatively large retail market shares, a firm with a smaller market share may find that private labels (retailers' house brands) are a lower cost alternative to intro-

Table B-4--Types of services reported by interviewed lettuce and bagged salad shippers in 1999 1/

Service type	Share of firms providing service 2/	Share of firms with a service request 3/	Share of requests where service was new 4/	Share of requests complied with 5/	Share lost when request not complied with 6/
			Percent		
Lettuce/commodity shippers 7/					
Third-party food safety certification	86	100	14	86	0
Electronic data interchange (EDI)	71	86	100	83	0
Private labels	57	57	75	100	0
Automatic inventory replenishment program	43	43	100	100	0
Category management services	14	14	100	100	0
Returnable containers	71	86	100	83	0
Special packs	57	57	50	100	0
Special merchandising displays	14	14	0	100	0
Bagged salad/value-added shippers 8/					
Third-party food safety certification	80	80	50	100	0
Electronic data interchange (EDI)	100	100	100	100	0
Private labels	60	80	25	75	0
Automatic inventory replenishment program	100	100	100	100	0
Category management services	80	80	100	100	0
Returnable containers	20	40	100	50	0
Special packs	20	20	100	100	0
Special merchandising displays	20	20	0	100	0

1/ Services to grocery retail and mass merchandise customers only. Results are based on a limited number of observations and must be interpreted with caution.
2/ Shippers were asked if they provided a type of service to any of their retail accounts. Thus, these results indicate the share of firms providing services to at least one retail account.
3/ Includes services requested, whether complied with or not, and services offered by shippers to at least one account.
4/ The type of service was new since 1994.
5/ Includes retailer-requested and self- and competitor-initiated services for at least one account.
6/ Firms reporting at least one account lost when they did not comply with at least one service request.
7/ Seven firms reporting.
8/ Five firms reporting.

Source: USDA, ERS, Produce Marketing Study interviews, 1999-2000.

ducing and promoting their own branded products. Retailers that have their own brands do not require fees to acquire refrigerated shelf space.

Several lettuce firms also indicated they supplied private label commodities, such as iceberg lettuce, to some of their customers, including retail chains and foodservice firms. In some cases, production of private label products was a significant portion of the firms' business. In others, shippers provided private label services for one or two accounts.

Evolving Relationships Among Shippers and Retailers

During the interviews, lettuce and bagged salad shippers were asked their opinions about possible changes that might have occurred in their sales and marketing relationships with retailers between 1994 and 1999. They were also asked whether the change was a consequence of retail consolidation and whether the impact on the firm was beneficial, neutral, or harmful.

Eight shippers mentioned that the ***number of retail buyers*** had declined since 1994, and most of those pointed to retail consolidation as the reason. Four firms generally had the same number of retail accounts, while one had more customers. The relative size of individual accounts as a percentage of gross revenue is increasing for many shippers. Some firms have a rule of thumb that no single account should exceed 5 percent of gross revenues, but it is becoming increasingly difficult for some firms not to violate that guideline.

Seven shippers indicated that their ***negotiating strength*** with retail buyers had decreased, and the impact on the firm was harmful. Six of those seven cited retail consolidation as the reason. Two of the four firms that had no change in the number of accounts also reported no change in their negotiating power. Four lettuce shippers were more concerned in 1999 about losing retailers' business than in 1994; all four cited retail consolidation and indicated that the impact was harmful. Two firms reported no change, and one saw a decrease.

Load rejections were on the rise for five firms, while four reported no change. Several lettuce shippers mentioned that retailers seem to overorder and then reject what they do not need. Others saw a general lack of knowledge of the produce industry and lack of adequately trained personnel in purchasing and receiving departments as possible explanations. Most who reported more load rejections saw retail consolidation as the cause and the impact on the firm as harmful.

Ten shippers responded to a question about ***pressure for shipper consolidation***; all 10 had commodities as a significant portion of their product mix. Eight firms reported that they were feeling increased pressure, while two reported no change. Several shippers mentioned that retail consolidation was one of the contributing factors, but by no means the only one. The impact on the firms varied; four said the increased pressure for shipper consolidation was harmful, two said it was neutral, and two (one medium-sized and one large shipper) said it was beneficial.

Conclusions

Mixed-vegetable shippers and processors offer a diverse product mix and are involved in various marketing channels. In addition to iceberg, leaf, and romaine lettuce, commodity firms may sell as many as 75 commodities, including broccoli, cauliflower, celery, and green onions. Many see a market advantage in offering one-stop shopping to their customers. Many firms also engage in processing, which can range from small operations that minimally process the vegetables—resulting in cello-packed hearts of romaine and broccoli florets—to sophisticated processing plants that blend lettuce and other ingredients to produce salad blends and kits packaged in patented films. Shippers typically market their products to a wide array of buyers: retail supermarkets, mass merchandise stores, foodservice firms, wholesale markets, brokers, and exporters. While some firms specialize with particular types of customers, others consciously diversify across marketing channels.

The relationship between shippers and retailers has changed, but only partly due to retail consolidation. Changes in technology, such as the advent of EDI and bagged salad films, and increased consumer demand for convenience, product diversity, and year-round availability also have influenced shipper-retailer relations. In response to these and other changes, relationships are becoming more formalized. For example, buyers are developing preferred supplier arrangements with shippers, written contracts are more common, mass merchandisers are making shippers responsible for tracking sales and replenishing inventory, and shippers are providing category management. Shippers have developed internal business strategies and external arrangements with other shippers, such as copacking and consolidated marketing offices, in response to the changing nature of sales and marketing.

Shippers were asked about fees and services in 1999 and 5 years earlier. Interviewed lettuce and bagged salad firms provided more fees and services to retail buyers in 1999 than they did in 1994. Some of the fees, such as rebates and volume discounts, are longstanding trade practices, while others, such as slotting and pay-to-stay fees, are new since 1994. Most of the bagged salad shippers paid slotting fees, either in response to retailer requests or to remain competitive. Three lettuce shippers reported that they had been asked to pay slotting fees by one or more retail buyers, and all three eventually lost the accounts when they refused to comply. These results are consistent with those found for other studied commodities (grapes, grapefruit, oranges, and tomatoes); some commodity shippers were asked to pay fees, although none paid slotting or pay-to-stay fees in 1999, and some lost accounts as a result (Calvin *et al.*).

Slotting fees paid by shippers for fresh-cut and value-added products may have some spillover effects on commodity shippers. A few firms offer both commodity and fresh-cut products and, in negotiating a contract with retailers for fresh-cut, may be able to secure favorable terms for their commodity products. More traditional fees, such as per-unit rebates and volume discounts, were paid by a majority of interviewed lettuce shippers. Shippers were unwilling or unable to report on the annual costs of all these fees. However, even if the fees are a small share of shipper sales, given the low margins often experienced by produce shippers, they may determine whether a firm earns a profit or loses money.

Services were a less contentious topic than fees. Some of the bagged salad firms offer services, such as EDI and category management, to their customers. Lettuce firms generally complied with the services requested by retailers. Product quality and timely services were often mentioned as a way to distinguish a firm from its competition and to cement ongoing relationships.

References

Calvin, Linda and Roberta Cook (coordinators), Mark Denbaly, Carolyn Dimitri, Lewrene Glaser, Charles Handy, Mark Jekanowski, Phil Kaufman, Barry Krissoff, Gary Thompson, and Suzanne Thornsbury. *U.S. Fresh Fruit and Vegetable Marketing: Emerging Trade Practices, Trends, and Issues*, AER-795. U.S. Department of Agriculture, Economic Research Service, January 2001, p. 52.

Glaser, Lewrene, Gary Lucier, and Gary Thompson. “Lettuce: In & Out of the Bag.” *Agricultural Outlook*, AGO-280, U.S. Department of Agriculture, Economic Research Service, April 2001, pp. 10-13.

Glaser, Lewrene K., Gary D. Thompson, and Charles R. Handy. *Recent Changes in Marketing and Trade Practices in the U.S. Lettuce and Fresh-Cut Vegetable Industries*. U.S. Department of Agriculture, Economic Research Service, forthcoming.

Sullivan, Mary. “Slotting Allowances and the Market for New Products.” *Journal of Law and Economics*, Vol. 90, 1997, pp. 461-493.